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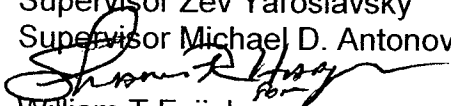
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July 13, 2009

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
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Supervisor Michael D. Antonovich
From: 
William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

This memorandum contains an update on the State Budget including a proposal for the State to achieve \$1 billion in Medi-Cal savings, the status on five County-advocacy bills, and information on the Medi-Cal hospital fee bill.

State Budget Update

Over the weekend, Governor Schwarzenegger and the four Legislative Leaders resumed negotiations on ways to address the \$26.3 billion State Budget deficit. According to various media reports, some members of the Big Five reported progress and believe a budget agreement may be reached soon.

Federal Medi-Cal Flexibility and Stabilization Waiver State Budget Proposal

As reported in the June 16, 2009 Sacramento Update, one component of the Governor's May Revision is to seek a \$1 billion waiver from the Federal government to implement additional eligibility reductions to manage the growth in the Medi-Cal Program. The Conference Committee adopted the May Revision savings proposal along with Budget Bill Language to provide that the State obtain Federal Medicaid funds owed to California which include: 1) about \$700 million for disabled persons who should have been enrolled in Medicare; 2) an estimated \$400 million from Federal Medicaid

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Waivers, including the current State Hospital Financing Medicaid 1115 Waiver; and 3) funds for revising and adjusting Medicare Part B payments.

The Department of Health Services (DHS) and the Chief Executive Office have recently learned that the Administration is now considering different components to achieve the \$1 billion in Medi-Cal savings including: 1) \$615 million from a proposed hospital provider fee; 2) the recapture of the \$360 million not used in the first two years of the current State Hospital Financing Medicaid 1115 Waiver; and 3) \$330 million in additional funds from the increased Federal Medical Assistance Percentage applied to the Safety Net Care Pool. It is unclear at this point how much, if any, funds would be provided to public hospitals.

As reported in the June 2, 2009 DHS Fiscal Outlook, these three potential funding sources were included as potential solutions to help address the estimated DHS cumulative budget deficit of \$356.8 million for FY 2008-09 and FY 2009-10. If none of the Federal dollars from these funding sources is used to assist public hospitals, DHS may need to seek service reductions to close its FY 2009-10 budget deficit.

Status of County-Advocacy Legislation

County-supported AB 221 (Portantino) which, as amended on July 7, 2009, would permit an HIV counselor to perform skin punctures for the purpose of drawing blood for HIV testing, passed the Senate Health Committee on July 8, 2009, by a vote of 10 to 1, and now proceeds to the Senate Appropriations Committee.

County-supported AB 222 (Adams and Ma) which would allow facilities that convert solid waste into energy or marketable products to count as a renewable electricity generation facility for the purpose of California's Renewable Portfolio Standard, and allow local governments to count solid waste that is converted into electricity or marketable products toward their recycling diversion goals, passed the Senate Energy, Utilities, and Communications Committee on July 7, 2009, with amendments, by a vote of 6 to 1.

The technical amendments taken in Committee would: 1) revise the definition of biorefinery to differentiate between facilities processing solid waste and facilities processing other carbon-based feedstock; 2) use the term non-incineration rather than the more generic non-combustion term; 3) limit the provision of renewable energy to only the biogenic (non-fossil) fraction of the waste stream; and 4) provide a definition for anaerobic digestion separate from a biorefinery. The Department of Public Works and this office continue to support AB 222. This measure is set for a hearing in the Senate Environmental Quality Committee today.

County-supported AB 1445 (Chesbro) which, as amended on June 1, 2009, would authorize Medi-Cal reimbursement for two medical visits for one patient on the same day, passed the Senate Health Committee on July 8, 2009, by a vote of 10 to 0, and now proceeds to the Senate Appropriations Committee.

County-supported SB 600 (Padilla) which, as amended on June 9, 2009, would impose additional taxes on cigarettes, was moved to the Senate Revenue & Taxation Committee's suspense file to allow the author, sponsors, and legislative staff to consider amendments suggested by the Assembly Speaker's staff and others. The Senate Revenue & Taxation Committee has not set a date for a hearing of bills on its suspense file.

County-supported SB 816 (Ducheny) which, as amended on June 26, 2009, would: 1) expand the list of State and local agencies to which the county assessor is required to disclose realty transfer-related information to include the county recorder when an investigation is being conducted to determine whether a documentary transfer tax is due; 2) authorize a county board of supervisors to order that the change in ownership penalty be abated if it can be shown the failure to file the change in ownership timely was due to reasonable cause and not due to willful neglect; and 3) require corporations and other entities to file a change-of-ownership statement within 45 days, passed the Assembly Appropriations Committee on July 8, 2009, by a vote of 10 to 5, and now proceeds to the Assembly Floor.

Legislation of County Interest

AB 1383 (Jones) which, as amended on July 9, 2009, would: 1) impose a provider fee on hospitals, except for designated public hospitals, to provide increased Medi-Cal reimbursement to public and private hospitals; and 2) require the State Department of Health Care Services to seek a State Plan Amendment from the Federal government to implement a supplemental payment system for hospitals, passed the Senate Health Committee on July 8, 2009, by a vote of 6 to 3, and now proceeds to the Senate Appropriations Committee.

Assembly Member Jones indicated that hospitals throughout California are facing a financial disaster and that AB 1383, with a companion bill which has not yet been introduced, would potentially provide between \$3 billion to \$4 billion in enhanced Federal Financial Participation for hospitals. The companion bill, which has not been introduced, will contain the details, including hospital-specific fee amounts and calculation of the supplemental payment to hospitals and Medi-Cal managed care plans.

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A spokesperson for the Administration reported that they do not have an official position on AB 1383, but indicated that the Administration's proposed 5 percent hospital provider fee should be used for the State General Fund and for the Medi-Cal Program.

We will continue to keep you advised.

WTF:RA
MR:VE:er

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